

Internal Audit Report

Council Budget Setting Lessons Learned Review

12 July 2023

CD2301

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management’s responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility.





Executive Summary

Summary of findings and audit assessment

Our review of the Corporate Leadership Team (CLT) lessons learned exercise of the 2023/24 Council budget process, and consideration of budget processes in a sample of other Scottish local authorities together with best practice sources concludes that the lessons learned process undertaken was adequate and completed within a sufficiently short timeframe to enable timely recommendations to strengthen the process for 2024/25 onwards. Two findings based on the CLT lessons learned exercise have been identified as well as two further findings informed by best practice, and review of the processes of, and engagement with key officers at three other local authorities.

The budget process lessons learned exercise took account of comments made by elected members during Council meetings where the 2023/24 budget was considered and included consultation with all political groups which established a consensus on members' feedback on the 2023/24 budget process, with recommendations to strengthen to process going forward reflecting feedback gathered.

The lessons learned exercise was completed by the newly appointed Executive Director for Corporate Services, who was not in post at the time of the 2023/24 budget process which brought a fresh perspective on the process. The recommendations also aim to ensure that the Council's Medium-Term Financial Plan is considered as part of the revised budget process to support development of a sustainable budget reflective of the Council's forecasted financial position.

Audit Area	Control Design	Control Operation*	Findings
1. Review of CLT lessons learned process		N/A	No issues noted
2. Review of member comments and CLT lessons learned recommendations		N/A	Finding 1 - Budget information for elected members
3. Review of budget process in a sample of other Scottish local authorities		N/A	Finding 2 – Process for emergency / late budget proposals Finding 3 – Best practice recommendations from other local authorities
4. Review of budget process best practice sources		N/A	Finding 4 – Annual budget lessons learned process

[See Appendix 1 for Control Assessment Definitions](#)

(*Design-only review - control operation not tested)

Background and scope

Following the budget setting process for 2023/24, at the [March 2023](#) meeting of the Governance Risk and Best Value (GRBV) committee members requested that the Corporate Leadership Team (CLT) review the process followed and provide recommendations that would strengthen and improve the process for 2024/25 onwards.

In addition, the GRBV committee requested that an independent review of the officer lessons learned process which considered best practice from other Scottish Local Authorities was undertaken by the Internal Audit as part of the 2023/24 Internal Audit programme.

It was agreed that the CLT lessons learned report would be presented to the Council's Finance and Resources Committee in June 2023, and the Internal Audit report presented to the GRBV committee in August 2023.

The CLT lessons learned exercise was led by the Executive Director of Corporate Services and the outcomes of were reported to the [Finance and Resources Committee on 20 June 2023](#). The report set out the process undertaken which included consultation with all political groups and detailed the following recommendations designed to strengthen the budget process from 2024-25 onwards:

- to provide budget training for all Councillors
- to start the budget process, particularly identifying change proposals earlier in the year, before summer recess
- to build in support and regular meetings with each political group through the autumn and winter
- that where possible, proposals should be taken through relevant Executive Committees
- that a report is taken to Council in September to amend the standing orders to alter the deadline for budget motions to a week and a day before Council.

Scope

The objective of this internal audit review was to consider the design of the lessons learned exercise undertaken by CLT and provide recommendations to support future budget-setting processes including consideration of any additional best practice from other Scottish local authorities and other sources.

The budget processes for the following three Councils were considered: Glasgow City Council, Fife Council, and North Lanarkshire Council. These Councils were chosen from a peer group sample based on gross expenditure, gross income, and net assets. Internal Audit also engaged with key officers within each of these Councils to understand their budget processes and challenges faced.

Risks

- Financial and Budget Management
- Governance and Decision Making

Reporting Date

Testing was undertaken between 26 June and 3 July 2023, following reporting of the outcomes and recommendations of the CLT lessons learned process to the Finance and Resources Committee on 20 June 2023.

Our audit work concluded on 3 July 2023, and our findings and recommendations are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – Budget information for elected members

During the budget sessions both at Council and subsequent Executive committee meetings, several concerns from elected members were noted regarding a lack of clarity on the information that underpinned budget proposals, specifically how fees and charges calculations were impacted.

In addition, some elected members also commented that they felt less well informed about the timeline for the budget itself and would welcome further information in this area to help them review budget proposals.

The CLT lessons learned exercise recognised this with a recommendation that budget training would be offered and open to all members and would focus on supporting understanding of some of the technical aspects of Council finance as well as how directorate budgets are currently structured and allocated.

At the Finance and Resources Committee on 20 June 2023, members requested that officers provide additional information for elected members including a timetable for the budget process, and information on what documents underpin the budget proposals.

Discussions with key officers at all three Councils contacted confirmed that a budget timetable setting out key dates and deadlines is made available to their members.

Risks

- **Financial and Budget Management** – members may be unaware of the key inputs, dates, and deadlines for the budget process
- **Governance and Decision Making** – members may lack clarity on the key areas which underpin the budget, impacting their ability to effectively scrutinise budget proposals.

Recommendations and Management Action Plan: Budget information for Elected members

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	In line with members' request at the Finance and Resources committee on 20 June, a revised budget timetable reflecting the updated process and setting out key dates and deadlines in the process, as well as expected dates for external inputs (such as the Local Government Finance Settlement) should be developed for members.	A budget timetable will be developed and put forward for agreement at Finance and Resources Committee on 21 st Sept 2023.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	21/09/2023
1.2	Delivery of the CLT lessons learned recommendation on member training should include preparation of additional materials for members which clearly set out the budget process and the key policies and documents that underpin the budget proposals, including but not limited to, fees and charges proposals.	Member training will be developed to include the additional material and detail requested.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/09/2023

Finding 2 – Process for emergency / late budget proposals

The CLT lessons learned exercise recommends that effective scrutiny of budget proposals by all political groups can be supported by requiring the budget proposals to be provided a week and a day before Council.

It is, however, recognised that external events such as a later than expected announcement of the Local Government Financial Settlement can cause delays which may impact timely provision of information to members, resulting in a possibility that emergency or late budget changes may need to be brought to Council.

Review of the 2023/24 budget processes for three other Scottish Councils highlighted that two of the three Councils advised that they had encountered late provision of information from third parties, which had a subsequent impact on the budget process. It was noted that each Council dealt with this situation in different ways, with one fully restating the budget prior to presentation at Council, and the other implementing a system where officers are allowed to pass amendments if they are not significantly consequential to the budget, and have been reviewed by Finance, and agreed by the Head of Governance.

Risks

- **Financial and Budget Management** – external parties may provide funding or change funding levels at the short notice, leading to the budget becoming incorrect
- **Governance and Decision Making** – late changes to the budget are dealt with incorrectly, leading to a lack of effective scrutiny.

Recommendations and Management Action Plan: Process for emergency / late budget proposals

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	It is recognised that decisions to support late adjustments to the budget process on an emergency basis will need to be agreed between officers and Members, and changes made to Standing Orders and delegated authorities where relevant. The Council may wish to consider developing a process to support late adjustments to the budget where emergency changes are necessary.	A process to support changes to the agreed budget timetable to accommodate late or emergency changes will be developed and put forward for agreement at Finance and Resources Committee on 21 st November 2023.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	21/11/2023

Finding 3 – Best practice recommendations from other local authorities

During our review of the budget process and practices across three other local authorities, there was discussion with key officers on the various situations encountered by them during their most recent budget cycle:

- in one council, Finance colleagues were assigned to political groups on an annual basis, meaning that the same person is not always available to support the same political group each year
- in another council, Finance colleagues were present to support political groups through the budget process from shortly after the first quarter of the new financial year
- in addition, Finance colleagues prepared budgets for a variety of scenarios, including a flat budget settlement, or increased ring-fenced funds within the settlement
- other councils also enforced strict deadlines on political group budget proposals to ensure that effective scrutiny of proposals could be carried out by other political group members
- one council had a Strategic Finance Group which enabled cross political group discussions to take place throughout the year, and especially in advance of the budget meeting
- another council reported that draft, officer-prepared budget proposals were shared by one political group outwith the agreed protocols for sharing budget documents with third parties.

The above situations provided the basis for the recommendations below; these recommendations should be considered as part of the planned budget setting process improvement workshop which has been agreed to be held with members.

Recommendations and Management Action Plan: Best practice recommendations

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	Where resources are available, consider assigning a permanent Finance colleague to each political group to ensure they receive consistency of support from a named officer.	To work through these options with members at the planned budget setting process improvement workshop and adopt those considered to support and strengthen City of Edinburgh Council's budget setting process.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/09/2023

3.2	Where resources are available, consider extending provision of support and availability of Finance colleagues during the lead up to the Council budget proposal deadline to provide advice and guidance to political groups on aspects of budget proposals.				
3.3	Developing budgets for a range of scenarios (e.g., funding reductions, flat budget settlements) to ensure that budget proposals are as robust as possible.				
3.4	Consider whether revised budget deadline dates should be strictly enforced once they have been confirmed, and only emergency changes (as noted in Finding 2 above) can be allowed by following a specified process.				
3.5	Consider the possibility of creating a Strategic Budget Group composed of the Finance Leads for each political group to meet and discuss the budget and receive the same briefing; potentially to design and review budget proposals with input from officers in advance of Council meeting.				
3.6	Consideration of whether officer-developed proposals shared with political groups should be kept in a secure location, and if proposals should be watermarked as 'draft' to ensure that if sharing the information outwith agreed protocols occurs, the information is clearly identified as not officially agreed by the Council.				

Finding 4 – Annual budget lessons learned process

During our review of best practice for budget processes it was noted that an annual lessons learned process, which formalises reflection and review of the annual budget setting process once complete and enables members and officers to consider what went well and what could be improved from the budget process cycle that year and inform the next iteration of the budget cycle, is recommended. This aims to ensure the process is continually improved and meets the changing needs of the Council.





Risks

Financial and Budget Management – the Council may not be following best practice suggested by professional bodies (such as CIPFA or COSLA).

Recommendations and Management Action Plan: Annual budget lessons learned process

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
4.1	Consider implementing an annual lessons learned exercise as part of the budget process to enable officers and members to reflect on what went well and what could be improved on in the latest budget process and agree changes to strengthen and inform the process for the next year.	A further lessons learned process will be carried out early in the new 2024/25 financial year and reported to Finance and Resources Committee before Summer Recess.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/06/2024

Appendix 1 – Control Assessment Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory		Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity		Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity		Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	N/A	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit